

Preservation
Case Studies

Carr Mill, Carrboro, North Carolina

A Rehabilitation Project under the Tax Reform Act of 1976

by Margaret A. Thomas

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Heritage Conservation and Recreation Service
Technical Preservation Services Division

U.S. Department of the Interior

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Introduction

Rehabilitation of a turn-of-the-century textile mill received widespread community support in Carrboro, North Carolina, partly because of local sentiment for the historic industrial building and partly because of the potential positive impact of the project on the small town's depressed commercial district. Located on an eight-acre site in downtown Carrboro, the two-story brick mill had been empty for many years before its redevelopment in 1976 by Carr Mill, a general partnership formed for the rehabilitation project.

Redevelopment has included conversion of the first floor of the mill into a shopping mall, reuse of the second floor as office space, and construction of additional shopping facilities on the property. In addition to increasing the shopping opportunities in Carrboro and answering a growing need for office space, the rehabilitation project has added to the tax base of the community through reuse of the long-vacant property. The businesses in the new complex have created a total of more than 239 permanent jobs in the community.

Despite a 15-year track record in shopping center development by members of the development team, the partnership experienced difficulty in obtaining initial financing. However, the success of the first phase of the complex, involving the shopping mall and the new construction later enabled the developers to refinance the project with a permanent mortgage from Connecticut Mutual Life Insurance Company.

*Federal Assistance for
Rehabilitating Historic
Buildings*

Section 2124 of the Tax Reform Act of 1976 offers important tax incentives for the rehabilitation of historic buildings. Owners of eligible depreciable structures may amortize qualified rehabilitation expenses over a five year period or take accelerated depreciation on the value of the rehabilitated property. A third incentive, an investment tax credit for rehabilitation, is available under section 315 of the Revenue Act of 1978.

The Heritage Conservation and Recreation Service, U.S. Department of the Interior, issues the necessary certifications to qualify owners of depreciable historic buildings for the incentives provided by the Tax Reform Act of 1976 and the Revenue Act of 1978. The Internal Revenue Service, U.S. Department of the Treasury, makes determinations regarding the tax consequences of these certifications.

The tax incentives for historic structures contained in section 2124 of the Tax Reform Act of 1976 permit the four partners to deduct rehabilitation expenses amounting to almost \$2,000,000 over a five year period, a substantial tax benefit for Carr Mill, Ltd. In order to become eligible for the tax provisions, however, approvals of the completed rehabilitation work had to be obtained from both State and Federal historic preservation offices. Although the partnership began project planning before the Tax Reform Act was passed, developer B.J. Allison now sees the rapid amortization of rehabilitation expenses as a major incentive for development of historic buildings such as Carr Mill. "If we were to do another shopping center rehab," Allison states, "we would definitely do it because of the tax incentives."

The renovation of Carr Mill, aided by Federal tax incentives for qualifying historic buildings, has been a great success for the developer and for the town of Carrboro, North Carolina. This success depended not only on the combination of rehabilitation with adjacent new construction, but also on the integration of the development team's goals and objectives with the interests of the community. Municipal leaders, State preservation officials, and concerned citizens all made significant contributions to the development team's plans for the property. The developers and these other diverse participants in the project all agree, in retrospect, that the rehabilitation of the mill has bolstered the image of Carrboro, lending a new sense of identity and pride to the small community.

The town of Carrboro has grown dramatically in the last decade, absorbing much of the overflow population from the expanding campus of the University of North Carolina in adjacent Chapel Hill. With the redevelopment of the mill property, Carrboro has begun to draw shoppers from beyond its own population of 13,000, reaching into a larger market area which encompasses not only Chapel Hill but also the larger cities of Durham and Raleigh (12 and 35 miles away, respectively).

Carr Mill
Project Data

Date of Construction:
1899

Date of Rehabilitation:
1976-1979

New Use: shopping mall
and offices

Old Use: textile mill

Type of Construction:
Loadbearing brick masonry with timber-framed floor and roof system

Gross Building Area:
80,232 square feet in mill
36,225 square feet of new construction

Net Rental Area:
70,796 square feet in mill
36,225 square feet of new construction

Total Costs:
\$2,800,000 (\$26.16 per square foot)

Tax Treatments:
Five-year amortization of qualified rehabilitation expenses (section 191 of Internal Revenue Code)

Like many industrial structures of its type, the architectural character of the mill lent itself to easy adaptation: the heavy structural system provided ample support for the new uses, high ceilings allowed adequate space for installation of mechanical equipment, and the large open floor areas minimized the need for interior demolition and allowed convenient subdivision with modern materials.

Historic Overview

Carr Mill has occupied a central position in Carrboro's development, both physically and economically, since the turn of the century. Constructed in 1899, twelve years before the town of Carrboro was incorporated, the mill was one of several small industries which sprung up around the West Chapel Hill railroad depot. The depot, located at the end of a short spur line, was established in 1882 to serve the nearby University of North Carolina. As local farmers also began to utilize the railroad line, a cotton gin, sawmill, grain mill, and cotton mill were established in the area. Carr Mill, first known as the Alberta Cotton Mill, flourished under the ownership of Thomas Lloyd, expanding from 4,000 to 10,000 spindles in one decade.

In 1909 the mill was sold to General Julian S. Carr, a prominent industrialist and financier from Durham. The building became one of many factories in Carr's Durham Hosiery Company, a major chain which was one of the largest hosiery operations in the world during the first quarter of the twentieth century. On the promise that the Durham Hosiery Company would supply electricity to the small industrial village, the town was renamed Carrboro in 1913, in honor of General Carr.

A victim of the depression, Carr Mill closed in the 1930's, and remained vacant until after the second World War, when it was purchased by Pacific Mills of Boston for use as a woolen mill. The BVD Company subsequently purchased the mill and used it for sorting and shipping of underwear. The mill was sold again in 1967 to the EDY Corporation of Chapel Hill, but remained vacant except for occasional use as warehouse space.

Accelerated depreciation
on new construction
(150% declining balance
method)

Developer:

Carr Mill, a
general partnership
c/o B.J. Allison
3520 NCNB Plaza
Charlotte, NC 28280

Project Architect:

R. Gray Miller, AIA
Miller Associates, Inc.
(formerly with Miller/
Steever/Finch)
11500 Turnstone Court
Pineville, NC 28134

General Contractor:

Wooten-Brawley & Co.,
Inc.
P.O. Box 1777
Statesville, NC 28677

Lending Institution:

Connecticut Mutual Life
Insurance Company
140 Garden Street
Hartford, CT 06115

State Historic

Preservation Office:

Division of Archives
and History
109 East Jones St.
Raleigh, NC 27611

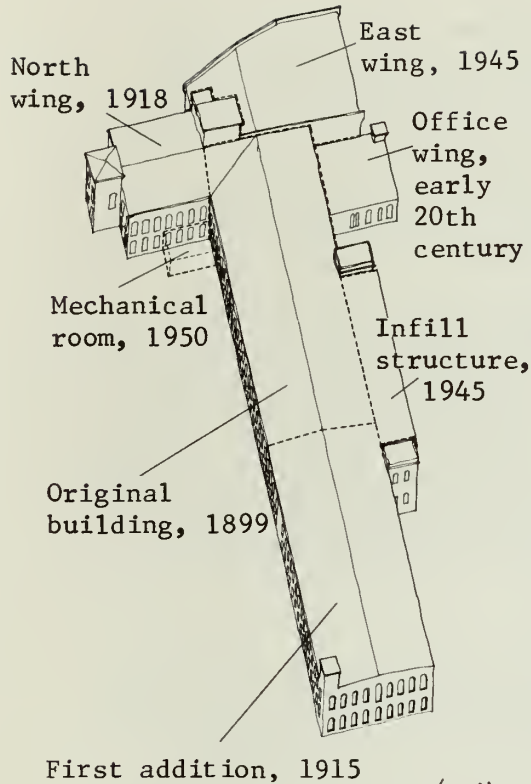


The mill, originally constructed in 1899, had remained vacant for over 10 years except for occasional use as warehouse space. The one story mechanical equipment room seen here was removed during the rehabilitation. Many of the windows which had been bricked up in the 1950s were re-opened as part of the overall rehabilitation. (photo courtesy of H. Brinton)

During the more active years of milling operations, several major additions to the mill building were made. The length of the mill was almost doubled in the early twentieth century by an addition to the west. Next, a two-story north wing (the only portion of the building with a basement) was constructed around 1913 followed by a one-story office wing attached to the south side of the building.

All of the early portions of the mill are identical in their simple design, each featuring large, evenly-spaced, multipaned windows topped by segmental arched fixed transoms. Entrances are articulated by elliptical arches. The horizontality of the mill, emphasized by the long rows of windows, is broken only by five stair towers which rise slightly above the main roofline.

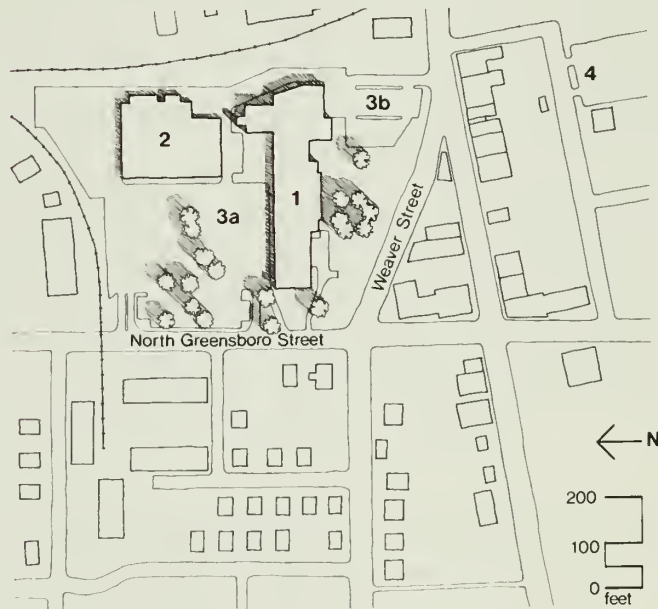
The three final additions to the building, dating from the mid-twentieth century, included a windowless warehouse area, called the east wing; an



Architectural evolution of Carr Mill (George Siekkinen)

infill structure between the two protruding towers on the south facade; and a one-story mechanical room, since removed. With the exception of those in the north and the office wings, virtually every window in the building was bricked-in during the 1950s when Pacific Mills installed air conditioning in the complex.

Various other industrial structures, including a railroad line, an electrical substation and four hexagonal brick fire hose houses, were added over time to the millyard property. The southwestern portion of the mill property remained a broad green area, planted with large shade trees.



- 1 Original mill building
- 2 New construction
- 3a Parking lot with farmers market
- 3b Parking lot
- 4 Auxiliary Parking lot

Site Plan

(Drawing by George Siekkinen)

Carr Mill, the railroad depot, and a small grist mill were nominated to the National Register of Historic Places as the most significant vestige of Carrboro's industrial origins by the North Carolina State Historic Preservation Officer (Division of History and Archives). Ten acres and three buildings, known as the Alberta Mill Complex, were entered in the National Register in January 1976.

The mill property occupies eight acres of this downtown historic complex, which is bounded on the south and west by main thoroughfares, on the east by now-defunct railroad tracks, and on the north by residential property. A block of commercial buildings faces the mill across Weaver Street (the south boundary), and other detached commercial structures lie across North Greensboro Street to the west.

Rehabilitation Strategy

An unused property, the vacant mill and its 8-acre site were a drain on the economic vitality of Carrboro's central business district. Recognizing the need for commercial activity in this location, municipal officials and representatives of the EDY Corporation which owned the property began to encourage development proposals for the site.

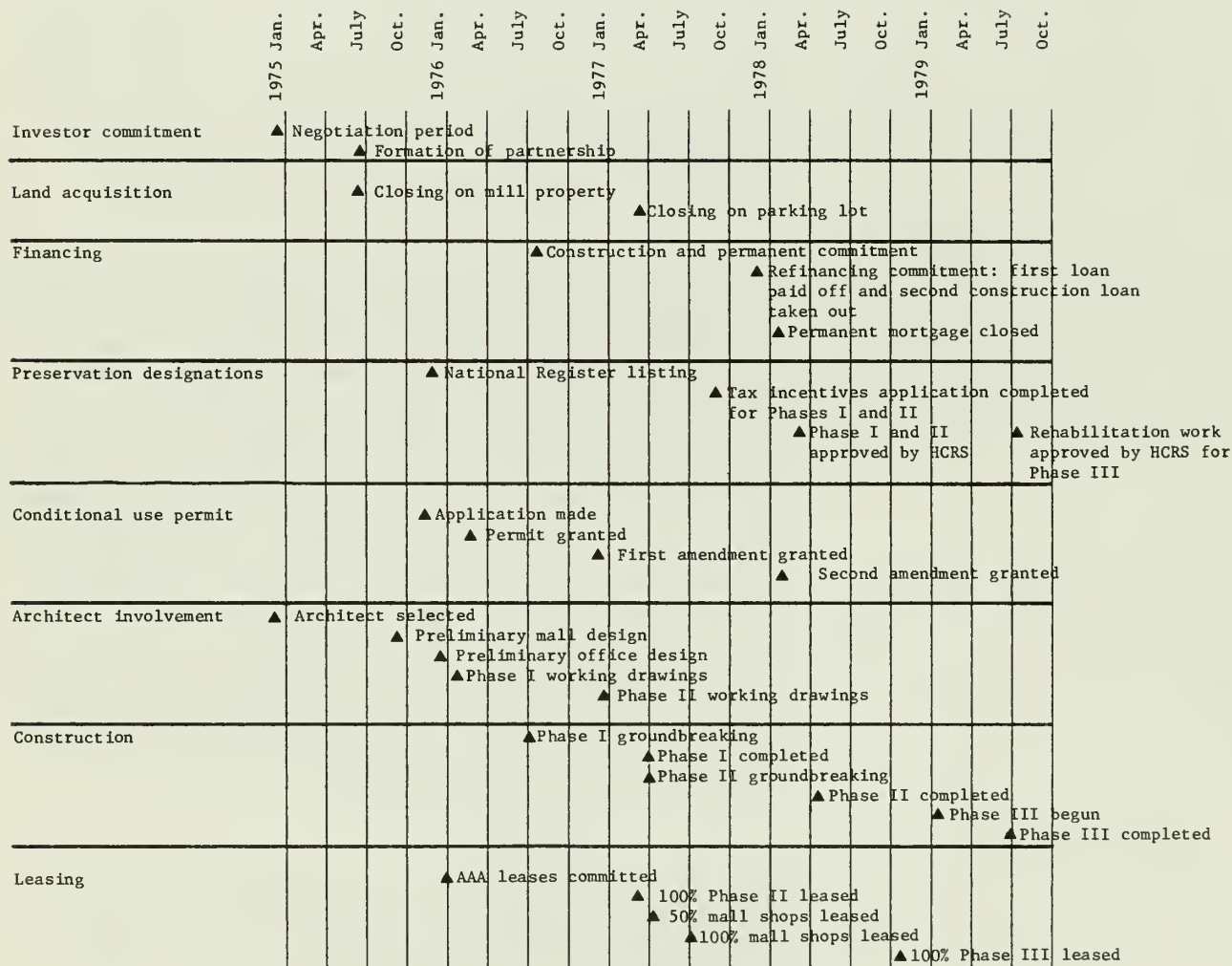
Although a feasibility study of the property in 1971 called for reuse of the mill as a shopping bazaar, the project was never initiated for lack of funding. In the spring of 1975, the EDY Corporation received a tentative commitment from an Atlanta-based corporation to purchase the property, demolish the mill, and construct a \$2 million shopping center. When the community became aware that the proposal called for demolition of the mill, many citizens began to express interest in preserving the mill.

This community concern became a factor in the race for mayor of Carrboro in late 1975, when the future of the mill figured prominently as a campaign issue. Candidate Ruth West, who had once been employed in the mill, made the preservation of the mill one of the prime issues in her successful campaign. State preservation officials also assumed a strong advocacy role for preservation of the mill. Brent

Glass, a Carrboro-resident who was under contract with the State Historic Preservation Office to do a local survey of historic industrial and engineering sites, initiated the nomination of the Alberta Mill Complex to the National Register. Glass, who now holds the position of North Carolina's Deputy State Historic Preservation Officer, also served as an informal consultant to the town as development proposals for the property were considered.

When the Atlanta corporation decided not to exercise its option, the EDY Corporation began negotiations with Southern Real Estate in Charlotte, a long-established North Carolina firm in business since 1899. By the fall of 1975, Southern Real Estate, which owns and manages seven shopping centers in North Carolina, had produced a proposal which called for reuse of the mill as a shopping center and construction of auxiliary buildings on the property to accommodate a grocery and drug store. In exchange for ownership of the property, valued at \$300,000, the EDY Corporation became a general partner in the newly formed Carr Mill with three principals of Southern Real Estate assuming positions as limited partners. The partnership chose a Charlotte, North Carolina architectural firm, Miller/Steever/Finch (now dissolved), both to rehabilitate the mill and to design the new building.

As a preliminary step in the development process, Southern Real Estate ran a marketing survey on the area, evaluating rental rates and vacancy levels for commercial space in downtown Carrboro and Chapel Hill and in nearby shopping malls. The turning point in project planning came in March 1976 with lease commitments from a regional grocery chain and a national drug store company to occupy space in a new building planned for the northeastern corner of the mill property. As prospective tenants, both these companies ran their own market surveys before agreeing to the development plan. Commitments from these "Triple A" anchor tenants which each had a net worth of more than \$5 million enabled the developers to obtain initial construction financing for the new building and for the shopping mall within the mill.



The initial proposal called for reuse of only the first floor of the main portion of the mill, with the second floor and the north and east wings to remain vacant indefinitely. However, in the spring of 1977, with the new construction and the rehabilitation work on the interior shopping mall well underway, the developers were approached by several public agencies with requests for office space in the building. The first inquiry came from North Carolina Memorial Hospital, which wanted to move its kidney dialysis laboratory out of the nearby hospital and into a satellite facility. A positive response by the developers to this request led the hospital to propose a transfer of three additional administrative divisions out of the critically overcrowded hospital and into the mill. Other unsolicited leasing requests came from a North Carolina Vocational Rehabilitation Area Office and a regional office for Southern Bell Telephone.

This unanticipated demand for office space encouraged the developers to undertake another phase in the project, involving reuse of most of the second floor of the main portion of the mill as rental office space. Because of the heavy demand for the space, lease commitments were made before rehabilitation work began, and the offices were custom designed for individual tenants.

With the commercial portions of the complex in operation and multiple commitments received from major office tenants, the partnership was able to obtain a commitment in June, 1977 to refinance the project with a permanent mortgage from Connecticut Mutual Life Insurance Company.

Also at this time, the partnership was informed by the State Historic Preservation Office that, because of Carr Mill's listing on the National Register of Historic Places, the rehabilitation work on the mill was eligible for tax benefits under the Tax Reform Act of 1976. A preliminary analysis of the tax incentives by the partnership indicated that the rehabilitation provisions could be of substantial benefit to the project by providing a shelter for the cash flow, in the

form of an income tax deduction. Carr Mill therefore decided to apply for the required historic preservation certifications from the Department of the Interior.

With permanent financing secured and the prospect of advantageous tax write-offs for the project, the developers decided to undertake a third and final phase of work, involving redevelopment of the remaining portions of the mill (the north, east, and office wings) as a restaurant and offices. Eighty percent of the net rental space was leased before construction was initiated.

Design and construction work on the mill complex stretched over two and a half years, reflecting the progressive changes in the overall development strategy for the property. The first phase, involving development of the shopping mall on the first floor of the mill, construction of the grocery and drug store building, and site work, was begun in August, 1976; the grand opening for the mall was May, 1977. The second phase, completed in February, 1978, involved renovation of rental space on the second floor as offices; and the third and final phase, involving redevelopment of additional office space, was completed in mid-1979.

Parking requirements for the rental portion of the complex, determined by the square footage of the buildings, were met by an existing asphalted area on the southeastern corner of the property and construction of a large new lot to the northwest. With the initiation of the second phase of the project, a 2-acre parcel of vacant land, located across Weaver Street within 500 feet of the mill property line, was leased to the partnership in March, 1977 by the EDY Corporation for development as additional parking to serve the offices. About 360 parking spaces are available on the mill property and about 200 in the auxiliary lot.

Public Involvement

Although the mill property was appropriately zoned for the proposed new uses, the developers had to secure a "conditional use" permit from

Conditional Use Permit

The initial permit issued by the Town of Carrboro for Carr Mill included the following conditions:

- *Town Appearance Commission approval of the exterior design for the new construction (to be harmonious with the old mill)
- *Dedication of the southwestern lawn as open space for public use
- *Preservation of as many existing trees as possible in the parking lot
- *Grant of 12-foot rights of way for widening of the public streets in two areas adjacent to the mill property
- *Construction of public sidewalks on two boundaries of mill property
- *Complete screening of trash receptacles and compactors for complex
- *placement of all utilities underground

the Town of Carrboro before any work could begin. This mill project represented Carrboro's first application for a "unified business development" permit, defined as a combination of uses housed within more than one building on the same lot.

The process therefore was more lengthy and less smooth than it might have been if the town had had previous experience with this type of project. Almost three months of negotiations involving public hearings, municipal staff review and meetings of the Planning Commission, the Appearance Commission and the Board of Aldermen preceded issuance of the conditional use permit.

The interests expressed during this time by citizens and by the town government primarily concerned preservation of the park-like lawn on the southwestern portion of the property and of the existing trees in the proposed parking areas. Other important concerns included the appearance of the new construction; vehicular access into the complex and traffic circulation within it; and linkages between the development and existing nearby commercial properties. Developer-Town negotiations, which lasted from December 1975 to February 1976, saw certain modifications to the original redevelopment plan to satisfy community and municipal interests.

As a major condition in the permit, the developers agreed to retain the landscaped southwestern portion of the property as open space, for use by the town and by the general public. A commitment was also made to save as many trees as possible in the area to be redeveloped for parking.

According to the permit, the design of the major facades of the grocery and drug store building had to meet the approval of the Appearance Commission, a publicly appointed citizens body concerned with programs of general community beautification in the town and its environs. The primary demand of the Commission was that the design of the new building had to be harmonious with the existing mill building. Both the grocery and the drug

store chains therefore were persuaded to forego their standard storefront designs for a more compatible architectural treatment.

To minimize traffic congestion expected from the development, the Town required the developer to grant rights of way in two areas so that the public streets could be widened. As an encouragement to pedestrian traffic, the Town also required a public entrance on the south side of the building for access between existing commercial buildings on Weaver Street and the new shops in the mill.

As subsequent phases of the project unfolded, the developers returned to the Town of Carrboro with a request for an amendment to the conditional use permit. In December 1976 the Town granted an amendment to allow office use of the second floor of the mill, with the stipulation that the developers bear the cost of widening the public access road and providing sidewalks into the newly acquired parking area. The conditional use permit gives the developer the option to apply at a later date for an amendment allowing additional new construction such as a bank, on the mill property.

The cooperative relationship between the Carr Mill partnership and the Town was evidenced in another amendment, initiated by the Town in February 1978 with the developer's approval and permission, to allow a Farmer's Market in the second parking area on weekends. A permanent open-air structure for the market was constructed with the assistance of a \$25,000 matching grant from the State of North Carolina. It was matched in kind by the Town of Carrboro with their provision of the site. It began business in 1978.

In addition to the involvement of town officials in the Carr Mill redevelopment, State and Federal officials played an important role in establishing the eligibility of the project for the rehabilitation tax incentives contained in the Tax Reform Act of 1976. To qualify for the tax incentives, a property owner must obtain certifications from

the Department of the Interior that the building is both historic (a "certified historic structure") and that the completed rehabilitation is consistent with the historic character of the property (a "certified rehabilitation"). This necessitates completing an Historic Preservation Certification Application, which is submitted to the appropriate State Historic Preservation Office and then forwarded to the Department of the Interior, where certifications are issued. The overall certification process generally takes between 45 and 90 days.

Because the Alberta Mill Complex is individually listed in the National Register of Historic Places, Carr Mill automatically qualified as a "certified historic structure." (Had the mill complex been listed within a registered historic district, rather than listed individually, a brief description of the historical and architectural significance of Carr Mill to the overall district would have been required on the application before the "certified historic structure" designation could be given.)

Plans and specifications for the rehabilitation work on the first two phases of Carr Mill were reviewed by the staff architect of the North Carolina State Historic Preservation Office and forwarded to Federal preservation officials in October 1977 with the recommendation that the rehabilitation be approved. In November, the Department of the Interior determined that photographs and additional information were required to make a decision on the project. These supplemental materials were received in February, 1978, and the completed first two phases of the project were designated as a "certified rehabilitation" shortly thereafter. The partnership began the five-year rapid amortization of qualified rehabilitation expenses for phases one and two on the tax return filed for the year 1977.

Additional documentation describing the work to be undertaken during the third phase was submitted by the partnership in late 1978. Upon notification by the partnership in July, 1979 that the third

phase was completed, Federal preservation officials issued a "certified rehabilitation" designation, making expenses for the final phase also eligible for the rapid amortization provision of the Tax Reform Act of 1976.

Rehabilitation Work

The basic concept for rehabilitation of the mill called for preserving and highlighting the significant architectural features of the building, both on the exterior and the interior. To recapture more of the older appearance of the structure, many of the mill's bricked-in windows were reopened, and, on the interior, masonry walls, heavy timber posts and beams, and maple floors were left exposed wherever possible. New construction was designed to harmonize with the old building, and site work was undertaken to clean up the property and provide sufficient parking and access without destroying the park-like character of the southwestern portion of the property.

Both the rehabilitation work and the new construction were reviewed by preservation officials in the North Carolina Division of Archives and History and in the Heritage Conservation and Recreation Service for conformance to the Secretary of the Interior's "Standards for Rehabilitation." Utilized to evaluate rehabilitation work under the Tax Reform Act of 1976, these ten standards are broadly worded to ensure that the significant architectural features of a building are preserved during the process of rehabilitation.

Architectural plans for the project also were reviewed by the State of North Carolina's Department of Insurance, which has jurisdiction over building code requirements for both new construction and rehabilitation. Review focused particularly on fire exits and regulations. Although four-hour fire walls were required between the oldest portion of the mill and the north, west and office additions, this specification did not cause design problems because the existing masonry bearing walls at these junctures

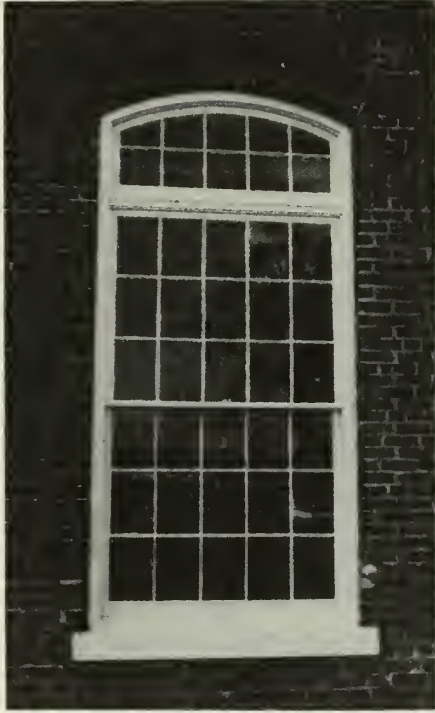
satisfied the requirement. To meet State code requirements, all the heads and some pipes in the existing sprinkler system had to be replaced; although this system with improvements was adequate for the exposed wooden ceilings, an additional system had to be installed to serve areas with dropped ceilings.

The mill rehabilitation and the new construction were handled by one general contractor, with a single supervisor overseeing all work on the property. Although the contracting firm, Wooten-Brawley and Company of Statesville, North Carolina, had previously worked on the renovation of several old mills in the State, the Carr Mill project represented their first involvement in conversion of an industrial building to a new use.

Initial redevelopment work involved clearance of the site, including removal of a power company transmission line and substation, a portion of railroad track, a loading dock, and the mid-twentieth century mechanical room on the mill. As the exterior facades of the mill did not appear heavily layered with dirt, a decision was made not to clean the brick. Tuckpointing was limited to a few areas where bricks had been damaged by removal of iron rods from the facade. This conservative approach to cleaning and tuckpointing exterior brick surfaces which minimizes possible damage to the historic fabric of a building was applauded by State and Federal preservation officials in their reviews of the partnership's application for the tax incentives.

The mill's existing built-up roof, which had a low pitch, was replaced in kind; an expansion joint was installed the length of the roof ridge to prevent damage from thermal expansion.

A major expense in the project involved rehabilitation work on the industrial-scaled double-hung wooden windows, which each measure 5' by 11'. More than 100 window openings had been bricked-in by Pacific Mills during the 1950s. The sash and frames of the remaining unaltered 52 windows were deteriorated, but the construction crew was able to repair



New wooden double hung sash windows, with fixed transoms, were especially milled to duplicate the original windows.

Although this was more expensive than new aluminum one-over-one sash, the architect felt that the duplication of the old windows was essential to retaining the character of the mill building. (photo courtesy of R. Gray Miller)

and reglaze most of these existing windows on the site.

The brick in-fill was removed from 40 of the 100 altered windows with a jackhammer, the process taking two men one day to re-open each window. All the bricked-in windows on the first floor of the north (main) facade of the mill were re-opened to provide light for the mall shops. To comply with State code requirements for an opening every 50 feet on at least one side of a structure, every fifth window was re-opened on the second floor.

To fill these openings, new wooden windows, each containing 40 panes of glass, were specially milled to duplicate the original windows. Replication of the original windows represented a more expensive alternative than installing new aluminum one-over-one sash. However, project architect R. Gray Miller believed that "duplication of the old windows was essential to retaining the character of the mill building." State and Federal officials reviewing the project agreed with Miller's assessment.

Costs for removing the brick in-fill and milling new wooden windows averaged \$1,200 per opening. According to Miller's estimates, installation of aluminum windows would have cut costs by one-third, for an average of \$800 per opening.

Several new openings were also cut into the windowless wall of the in-fill structure on the second floor, at the request of the dialysis laboratory, which occupies that portion of the building. The hospital assumed expenses of \$10,000 to cover this work.

The overall window treatment for the Carr Mill has been considered by Federal preservation officials as a model for other industrial rehabilitation, not only because the owners decided to repair the existing sash, but also because they saw the importance of replicating the missing sash.

Since the complex was without major entrances, the architects lowered the sills on several windows

on the north side and created new points of entry into the mills. This was done with minimal destruction of historic building fabric.

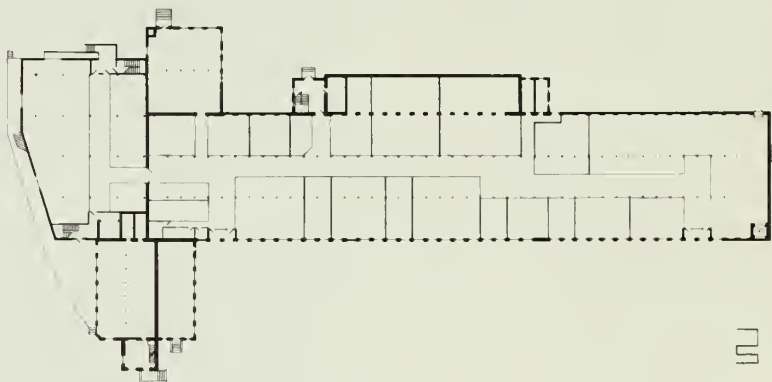
The first major rehabilitation work within the mill involved removal of paint from the brick walls and from the timber framing system through sandblasting. Sandblasting was considered the only viable option by the developer for removing the paint, although the process was costly and caused some damage to the surfaces of the brick. In retrospect, the developers have expressed dissatisfaction with sandblasting because of unanticipated problems from sand accumulating in the wooden ceilings and gradually sifting down on shops below.

Although sandblasting of exterior surfaces is an unacceptable treatment under the "Standards for Rehabilitation," sandblasting of interior brick and of heavy timber structural members in industrial buildings is evaluated on a case-by-case basis. The open, unfinished spaces of Carr Mill were determined not to have significant architectural features, and the sandblasting was therefore considered acceptable by the State Historic Preservation Office and by the Department of the Interior. An alternative cleaning method, such as chemical removal of the paint, would have been encouraged if State or Federal preservation officials had had an opportunity to review the project prior to completion of this work.



The original open floor plan of the mill made the building's conversion into a shopping mall and offices relatively simple. (photo courtesy of R. Gray Miller)

Design of the shopping mall called for two rows of shops opening onto a broad central corridor. A jog interrupts the corridor midway to break up the long length of the mall. Wooden ceilings (13'-8" high) remain exposed on the first floor, except where mechanical equipment for the heating and cooling system has been boxed in. The mechanical system installed during the rehabilitation consists of a chilled water system, with electrical resistance coils and heat exchangers.



Floor plan: mall level. The open floor plan of the mill was easily adapted into both small shops on the first floor level (as seen in this plan) and offices on the second floor level. (George Siekkinen)

Six variations for storefronts were developed by the project architect, and individual tenants were allowed to choose and adapt their shopfronts from these standard designs. Shopowners were also responsible for finished construction work in their own retail spaces. To increase usable square footage within their shops, several storeowners constructed lofts to serve as office or storage areas. Brilliantly colored banners and wood and cast iron benches have been installed to add interest to the public mall spaces.

A public elevator, installed in one of the towers, provides major access to the second floor and satisfies the need by the hospital and the vocational rehabilitation office for handicapped access. Construction work on the second floor has been more extensive than on the mall level; a narrow central hallway gives access to a double

load of offices. Depending on the preferences of the tenants, ceilings on the upper floor have been variously dropped or left exposed; floors have been either refinished or carpeted; and masonry walls have been exposed or covered with gypsum board. Special design considerations for the dialysis laboratory were facilitated by architect Miller's previous experience with design of a similar center in Charlotte, North Carolina. An emergency power system and other modifications to the building's electrical plan were the major items needed for the laboratory.



Both the grocery and drug stores, shown here on the left, are compatible with the mill in terms of scale and material. The segmental arched windows of the older building are echoed by the openings of the new. (George Siekkinen)

In keeping with the Secretary of the Interior's "Standards for Rehabilitation," the design of the new brick-faced grocery and drug store building is contemporary but compatible in scale, color, and materials with the old mill. The mill's arched windows were used as a motif for the design of the new structure, both for the entrances and the store display windows.

Project Economics

Although the Carr Mill rehabilitation project was initiated prior to enactment of the Tax Reform Act of 1976, the partnership undertaking the project is now using the tax incentives in a situation that is typical of many other rehabilitations

certified since the law went into effect. The Carr Mill partnership has chosen the alternative of the five-year writeoff of rehabilitation expenses which enables it to operate at an annual loss for Federal income tax purposes. Each year this loss is allocated to the partners according to a profit and loss percentage that is determined by the partnership agreement. The individual partner thereby obtains a tax shelter for income from other sources. While the tax situation for each partner varies, the overall effect of the five-year amortization provision is to provide a greater shelter for income than would be provided without the use of the rehabilitation provision.

Carr Mill is a general partnership consisting of two partners, the EDY Corporation and Rarco-Carrboro, the latter being a limited partnership. These two entities share interests in the partnership on a 50-50 basis. The Rarco-Carrboro partnership consists of four limited partners. Three of them are individuals with one-third interest each, and the remaining one percent of the partnership interests belong to Rarco, Inc.

The narrative and figures that follow explain how Carr Mill, the general partnership, applies the Tax Reform Act provisions, codified in sections 191 and 167(o) of the Internal Revenue Code (IRC). It must be noted that the dollar amounts used in this explanation are only approximations. Each taxable year is different in terms of actual income and expenses and, as of August, 1979, Phase III of the project (additional rehabilitated office space) is still being put into operation.

Under proposed rulemaking for section 191 of the IRC, the partnership may deduct from its income, each year for five years, one-fifth of the total amount of qualified rehabilitation costs, including direct construction costs and indirect or "soft" costs, such as architectural, engineering, legal and brokerage fees. Costs of new construction, landscaping, parking lots, and purchase of the building itself are excluded from the five-year writeoff provision. Interest on construction financing is amortized separately over a ten-year period.

Table A shows the project costs for the Carr Mill rehabilitation. Costs for Phase III are projected, since final figures are not yet available. Indirect costs for all three phases total \$175,000 and are broken down in Table B.

TABLE A

<u>Project Costs</u>		
Property Acquisition		\$300,000
Land (8 acres)	\$70,000	
Mill building	230,000	
Phase I (retail/commercial)		\$1,200,000
Direct construction	\$1,115,000	
Indirect	85,000	
Phase II (office)		\$800,000
Direct construction	\$760,000	
Indirect	40,000	
Phase III (office)		\$500,000
Direct construction	\$450,000	
Indirect	50,000	
Total project costs		<u>\$2,800,000</u>

TABLE B

<u>Breakdown of Indirect Costs</u>	
Architectural fees	\$30,000
Legal fees	7,000
Engineering fees	12,000
Insurance	7,000
Brokerage fees	25,000
Interest on construction loan	84,000
Miscellaneous	<u>10,000</u>
Total	\$175,000

Amortizable rehabilitation costs are derived as follows:

Total project costs	\$2,800,000
Less purchase price of land and building	<u>-300,000</u>
	\$2,500,000
Less cost of new construction	<u>-510,000</u>
	\$1,990,000
Less cost of construction financing	<u>- 84,000</u>
	\$1,906,000
Annual amount amortizable (\$1,906,000 divided by five years)	\$381,200

TABLE C

Annual Income Statement

Income		\$572,394
Retail/commercial	\$286,362	
Offices	286,032	
Operating expenses		<u>-137,191</u>
(see Table D for breakdown)		
Net income before debt service		\$435,203
Debt Service		<u>-286,025</u>
Phases I and II	\$230,940	
Phase III	55,085	
(see Table F for calculation of debt service)		
Cash flow before taxes		\$149,178

TABLE D

Annual Operating Expenses

Taxes	\$18,000
Advertising and dues	2,400
Insurance	7,500
Maintenance, repairs, onsite management	7,200
Security	3,600
Cleaning	13,116
Compactor	3,600
Parking lot cleaning	3,600
Legal and accounting fees	4,500
Telephone	1,025
Water, sewer, electric	26,400
Lease on parking lot	10,000
Petty cash	250
Projected for Phase III	<u>36,000</u>
Total annual operating expenses	\$137,191

The next step in calculating how this estimated annual deduction of \$381,200 works for tax purposes involves examination of an annual income statement for the operation of the Carr Mill mall. Table C shows that the cash flow before taxes for the partnership is \$149,178. Note that total debt service (interest plus principal of the mortgage) is subtracted from the annual net income to find the before tax cash flow. For income tax purposes, only the interest on a loan is deductible; thus, the calculations below show the addition of the mortgage amortization to the before tax cash flow amount. (Mortgage amortization is separate from, and should not be confused with, the amortization option of the Tax Reform Act provisions explained here.)

	Year 1
Before tax cash flow	\$149,178
Mortgage amortization (see Table H)	41,025
	<u>\$190,203</u>
Less depreciation (see Table I)	-38,250
	<u>\$151,953</u>
Less annual amortization of allowable rehabilitation costs	-381,200
Taxable income (Loss)	<u>(\$229,247)</u>
Income sheltered	\$229,247

For purposes of simplification, the \$229,247 loss incurred in the first year by Carr Mill can be rounded off to \$230,000. The partnership would sustain a loss which would be distributed as follows:

EDY Corporation:	\$115,000
Rarco-Carrboro:	115,000

Rarco-Carrboro, the limited partnership, would in turn distribute the loss of \$115,000 as follows:

Each of three equal partners	\$37,950
Rarco, Inc.	1,150

Table E shows the application of the five year write-off under section 191 of the Internal Revenue Code as projected through year six.

TABLE E

	<i>Pro Forma</i>					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Before cash flow	\$149,178	\$149,178	\$149,178	\$149,178	\$149,178	\$149,178
Plus mortgage amortization	+41,025	+45,037	+49,443	+54,279	+59,588	+65,416
	<u>190,203</u>	<u>194,215</u>	<u>198,621</u>	<u>203,457</u>	<u>208,766</u>	<u>214,594</u>
Less depreciation of new construction	-38,250	-35,381	-32,728	-30,273	-28,003	-25,902
Less annual amortiz- ation of allowable rehab costs	-381,200	-381,200	-381,200	-381,200	-381,200	0
Taxable income	-229,247	-222,366	-215,307	-208,016	-200,437	188,692
After tax cash flow	149,178	149,178	149,178	149,178	149,178	149,178
Income sheltered	\$229,247	\$222,366	\$215,307	\$208,016	\$200,437	0

Through year five, the partnership continues to sustain a negative taxable income, though this loss decreases each year as the annual mortgage amortization payments increase. In year six, the five-year amortization writeoff no longer applies, and the partnership realizes a taxable income of \$188,692.

The tax situation for the individual partners will vary. Due to the complexities involved in the tax laws pertaining to partnerships, specific tax benefits accruing to individual partners cannot be discussed in this analysis.

The Carr Mill project was financed by private mortgage money obtained by Carr Mill, Inc. Using \$300,000 in equity contributions and the mill building as security, the partnership obtained a \$1.2 million construction loan in August 1976 from Mutual Savings and Loan in Charlotte, North Carolina, which also agreed to provide the permanent financing. This loan covered rehabilitation of the first floor of the mill (\$690,000) and new construction of retail space (\$510,000). Mutual Savings and Loan stipulated that 65 percent of the total retail space in the mill be leased before the permanent loan could be taken out.

As work progressed on the first floor of retail space (Phase I), the partnership decided to pursue rehabilitation of the second floor for office space. In early 1977, they approached Lat Purser and Associates, Inc., a Charlotte mortgage company, for the additional \$800,000 financing that was needed for Phase II. Purser and Associates subsequently convinced Connecticut Mutual Life Insurance Company of Hartford, one of Purser's mortgage correspondents, to provide a permanent loan which encompasses both Phases I and II, including both new construction and rehabilitation.

Connecticut Mutual has developed special expertise in rehabilitation lending by financing several major rehabilitation projects across the country. In the case of Carr Mill, the Company lent \$2 million or approximately 70 percent of the total project costs of \$2,800,000, with no lease requirements since a high proportion of both retail and office space had already been leased prior to the refinancing. An interim financial step in the refinancing process consisted of securing a short-term \$2 million loan while the permanent financing was being arranged. This interim loan was obtained from North Carolina National Bank, a Charlotte, North Carolina, firm which itself is taking advantage of the Federal tax incentives by amortizing the cost of their rehabili-

tation of an historic seven-story branch bank building in downtown Durham.

With the new 20 year loan, obtained at an annual interest rate of 9 3/4 percent, Carr Mill paid off the construction loan from Mutual Savings and Loan and completed rehabilitation of the second floor office space (Phase II). The third and final phase of rehabilitation was undertaken in late 1978 and early 1979. To finance this conversion of additional office space in the east wing of the mill, the developers arranged a second loan for \$500,000, also from Connecticut Mutual. The terms of this loan are 25 years at an annual interest rate of 10 percent.

The composite picture of the financing for all phases of the Carr Mill project, including annual debt service, is shown in Table F.

TABLE F

		<i>Financing</i>	
Total project costs		\$2,800,000	
Financing			
Loan 1		2,000,000	
Loan 2		<u>500,000</u>	
		\$2,500,000	
Equity contribution		<u>\$300,000</u>	
		\$2,800,000	
Annual debt service (computed from expanded payment table on an annual payment basis)			
Amount of loan	Interest rate	Annual payment	First year principal & interest
\$2,000,000	9 3/4%	\$230,940	\$35,940 + \$195,000
500,000	10%	<u>55,085</u>	<u>5,085</u> + <u>50,000</u>
	Total	\$286,025	Total \$41,025 + \$245,000

The total project costs of \$2,800,000 covered the rehabilitation of 70,796 square feet of net rental area, both retail and office space, plus new construction of 36,225 square feet of retail area. The total net rental area equals 107,021 square feet (see Table G for a breakdown by phases of construction).

TABLE G

<u>Rental Area</u>		
	<u>Gross (sq. ft.)</u>	<u>Net (sq. ft.)</u>
Total rehabilitated space in old mill	80,232	70,796
New space constructed	<u>36,225</u> 116,457	<u>36,225</u> 107,021
Breakdown by construction phase		
Phase I		<u>Net (sq. ft.)</u>
Rehabilitated shops		26,941
New shops		36,225
Phase II		
Rehabilitated mill offices		24,265
Phase III		
East wing rehabilitated offices (est.)		<u>19,590</u>
Total project area (net sq. ft.)		107,021

Total costs of the entire redevelopment project, including property acquisition, soft costs, and new construction, were \$26.16 per square foot of net rental area (\$2,800,000 divided by 107,021 square feet). If new construction is excluded, rehabilitation costs on a square foot basis are slightly higher: \$28.11, calculated as follows. Using total construction costs of \$2,500,000 (\$2,800,000 less \$300,000 in acquisition costs), and then subtracting \$510,000 in new construction costs, results in an estimated rehabilitation costs total of \$1,990,000. On the basis of 70,796 square feet of rentable rehabilitated space, rehabilitation costs are \$28.11 per square foot (\$1,990,000 divided by 70,796 square feet).

Rental rates in Carr Mill vary according to the type of tenant. Commercial tenants pay at an average rate of about \$4.50 per square foot of retail space (\$286,362 divided by 63,166 square feet). This rate includes a fee which covers certain common utilities such as mall lighting. Office space rents at an average rate of \$6.50 on a square foot basis (\$286,032 divided by 43,855 square feet), which includes the lessees' utilities.

TABLE H

Mortgage Amortization

Loan 1: \$2,000,000
 9 3/4% for 20 years: annual payment= \$230,940
 Loan 2: \$500,000
 10% for 25 years: annual payment= 55,085
\$286,025

	<u>Annual payment</u>	<u>Interest</u>	<u>Principal*</u>	<u>Balance of loan</u>
1 Loan 1		\$195,000	\$35,940	\$1,964,060
Loan 2		50,000	5,085	494,915
		<u>245,000</u>	<u>41,025</u>	
2 Loan 1		191,496	39,444	1,924,616
Loan 2		49,492	5,593	489,322
		<u>240,988</u>	<u>45,037</u>	
3 Loan 1		187,650	43,290	1,881,326
Loan 2		48,932	6,153	483,169
		<u>236,582</u>	<u>49,443</u>	
4 Loan 1		183,429	47,511	1,833,815
Loan 2		48,317	6,768	476,401
		<u>231,746</u>	<u>54,279</u>	
5 Loan 1		178,797	52,143	1,781,672
Loan 2		47,640	7,445	468,956
		<u>226,437</u>	<u>59,588</u>	
6 Loan 1		173,713	57,227	1,724,445
Loan 2		46,896	8,189	460,767
		<u>220,609</u>	<u>65,416</u>	

*Interest + principal each year = \$286,025

TABLE I

Depreciation Schedule

Cost of new construction: \$510,000

Assume 20 year life and 150% declining balance method of depreciation

(calculation: \$510,000 divided by 20 years times 150% = \$510,000 x .075)

.075 = factor x balance remaining each year

<u>Year</u>	<u>Balance remaining</u>	<u>Factor</u>	<u>Depreciation</u>
1	\$510,000	.075	\$38,250
2	471,750	.075	35,381
3	436,370	.075	32,728
4	403,642	.075	30,273
5	373,369	.075	28,003
6	345,366	.075	25,902

Depreciation on the old mill equals zero because its book value at the time the Carr Mill partnership acquired it was \$4,300. In 1976, the shell was valued at zero for depreciation purposes.

Tenants in the mall shops generally hold three-year leases with the exception of the grocery and drug stores which have 25 and 15-year leases, respectively. The leases of the 27 office tenants range from one to ten years. Most of the mall shops are locally owned with about 30 percent of the tenants operating as first-time business owners. The retail shopowners have formed a merchants' association to handle advertising; their annual dues are matched by the Carr Mill partnership.

Project Benefits

The commercial portions of the development employ approximately 155 people (83 work in the grocery and drug store, and the remainder are managers or employees of the mall shops). An additional 84 people are office employees working in the mill, for a total of 239 jobs within the complex. Although most of the office positions were pre-existing in other locations in Carrboro, most of the jobs in the commercial businesses represent new employment in the town.

In addition to these concrete economic benefits, the mill redevelopment has had other, less tangible, influences on the town. The success-- and perhaps the competition-- of the mill project has encouraged other businessmen in downtown Carrboro to make improvements on their commercial properties. As a result of the complex and lengthy reviews of the Carr Mill Project, the town aldermen and municipal staff have become more experienced in their dealings with developers, and they are applying this new expertise to negotiations with other prospective developers of Carrboro property. The town has also begun to look more aggressively for Federal and State funds and programs to spur further community revitalization. The town-initiated construction of the farmer's market on one of the Carr Mill parking lots was one of the first of these new efforts to come to fruition.

A significant financial gain has also come to the community in which Carr Mill is located through an increase in sales taxes resulting from the new business operations on the property. Sales revenues from the complex, estimated at \$10.5 million in 1978, are taxed at four per cent; three per cent goes to the North Carolina Department of Revenue and one per cent, or \$105,000 is returned to the county.

The greatest direct impact on Carrboro and the county from redevelopment of the mill comes from the increase in annual property taxes. Prior to rehabilitation work, the mill property was valued at \$304,700 (\$74,700 for the land, and

\$230,000 for the building). In 1975, at an annual tax rate of \$1.60 per \$100 of valuation, the mill property paid \$4,875 in taxes. After rehabilitation, the mill was valued at \$1,538,500 (\$77,400 for the land, and \$1,461,100 for the building). In 1978, at an annual tax rate of \$1.94 per \$100 of valuation, the property paid \$29,847 in taxes, an increase of almost \$25,000 over pre-rehabilitation payments.

Several minor one-time financial benefits to the town of Carrboro have also accompanied redevelopment of the mill. Payments for building permits, based on the cost of construction work, amounted to \$1,454 for the project. From each commercial tenant, the town has received an average of \$25 for a "privilege license," required to operate a business in Carrboro.



In the ground floor mall space two rows of shops open onto a broad central corridor. Multi-colored banners and period benches enliven the atmosphere and make the public space inviting to shoppers. (photo courtesy of Margaret A. Thomas)

The rehabilitation of Carr Mill has not only generated new jobs and a larger tax base but has preserved an historic industrial complex by recycling it and giving new life to the surrounding area. Section 2124 of the Tax Reform Act of 1976 is providing the four partners of Carr Mill with a substantial tax deduction over the first

five years of ownership that they would not have had otherwise. As a consequence of taking deductions earlier, the partners' tax liabilities are postponed so that a return can be earned on those funds in the intervening period. While the Carr Mill project would have been rehabilitated without the incentives, developer B.J. Allison emphatically states that future projects will be undertaken by him because of the Tax Reform Act of 1976.

Acknowledgements

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This publication has been prepared pursuant to section 2124 of the Tax Reform Act of 1976 and Executive Order 11593, "Protection and Enhancement of the Cultural Environment," which directs the Secretary of the Interior to "develop and make available to Federal agencies and State and local governments information concerning professional methods and techniques for preserving, improving, restoring and maintaining historic properties." Comments and suggestions are welcome.

*Cover: Carr Mill (photo courtesy
of Balcor Corporation)*

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